2 Reforming the EU budget: if not now, then when?

*By Ann Mettler**

The debate on the EU budget beyond 2013 is now beginning in earnest. Despite the current budget's well-documented, much-bemoaned and readily-apparent shortcomings (and in apparent obliviousness to the consequences of the economic, financial and debt crisis), few experts expect the kind of major refurbishment that might be called for at this stage. Even after years of verbal pledges to make Europe a "dynamic knowledge-based economy" and to build an "Innovation Union", it looks as if – once again – vested interests will triumph and organised opposition will combat even the most modest efforts to modernise budgetary priorities. In many ways, the budget exemplifies everything that is wrong with Europe – a keen awareness of the need to change, on the one hand, versus the stubborn and illogical allegiance to the *status quo*, on the other.

In the absence of any expectation that budget priorities will change fundamentally in the next Multiannual Financial Framework (MFF), what could be some innovations and new approaches that would at least mark some progress and measure of reform?

From subsidies to investments

First, the entire intellectual underpinning of the European budget needs to be re-thought and re-evaluated. In the ideal world, we would move from a logic of open-ended subsidies and ill-defined goals of "redistribution" towards a logic of strategic and targeted investments of limited duration. This would necessitate two things:

- firstly, *fewer grants and more loans*. Loans should serve better than grants in incentivising recipients to ensure that there will be a proper return on investment (ideally, a sustainable effect in terms of growth, employment and innovation). Some stake in accepting funding – as would be the case with a loan because it needs to be paid back – would have the potential to result in dramatically improved business plans, execution of projects and impact monitoring – not least because the loan-granting entity wants to ensure success, as that makes servicing the debt more likely. Currently, there are insufficient means to reprimand grant recipients who do not deliver value and impact;
- secondly, *re-think the practice of letting recipients decide how money is spent*. While there are (nominally) some requirements on how to use EU funds, in practice there is too much leeway in letting politicians and *fonctionnaires* at Member State level decide on spending priorities. The result has been an excessive focus on large-scale domestic (pet) building projects, which may serve well as vote-getters for local politicians but which have hardly facilitated structural change, modernised economies and provided *lasting* value in terms of employment and growth.

That needs to change as European citizens and taxpayers rightly wonder why some of the largest recipients of EU cohesion funds – namely Greece, Ireland and Portugal – are the very countries they now need to bail out. There are limits to "solidarity", especially when the concept is abused and countries stubbornly use the money to subsidise the unsustainable. By doing so, the budget – and the larger European project – will continue to lose credibility.

From push to pull

So if local leaders and *fonctionnaires* should not decide unilaterally how to spend the money, who should? In general, we need *more pull and less push*: money should go into areas where there is genuine and demonstrable demand and where other actors – such as the European Investment Bank or non-public entities (private companies, financial service providers and venture funds) – are also prepared to take a stake. They would serve as a sort of quality control because they are only prepared to channel money into projects that they deem fund-worthy and successful over time.

Many EU-funded projects are not sustainable as they are unable to secure other sources of

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funding or become self-sufficient: they simply collapse after EU funding is withdrawn. By trying to prevent these "white elephant" projects from ever getting off the ground, and recognising the need to ensure upfront that projects are viable, the Commission's DG REGIO is now rightfully pushing the concept of "smart specialisation". In a nutshell, it means that regions need to adopt a more bottom-up, entrepreneurial and demand-based rationale behind projects, rather than the top-down, publicly funded wish-list of local politicians. It's a subtle but profound shift from using public funds to essentially crowd out private initiatives to embracing co-creation and collaboration between public and private actors. In other words, more pull and less push – more public-private partnerships and fewer public-sector solo acts.

From domestic to European

The future MFF needs to have more of a pan-European dimension. It is in the interests of all to spend more where "Europe" can make a difference, such as cross-border transport, energy, and ICT projects. The reason why going European in these areas makes sense is twofold:

- first, it would be more costly to fund these projects individually at national level – which is not advantageous at any time, but is particularly inappropriate now in the midst of a financial and debt crisis;
- second, most Member States by definition are more intent on domestically focused spending priorities, so it is natural that the EU needs to fill this gap and help make the smart energy grid, the 21st century broadband infrastructure and the Europe-wide sustainable transport systems a reality.

Against this backdrop, the plans for a "Connecting Europe Facility" that will provide a policy roadmap and accompanying financial framework for ambitious Europe-wide projects is long overdue. Such a vision for long-term investment in strategic areas would not only demonstrate policy commitment but also give the necessary assurance to private investors (e.g. pension funds) of becoming involved in such projects.

From *juste retour* to own resources

The current system of *juste retour*, meaning that Member States try to get as much out of the budget as they put in, has rendered the EU's financial framework dysfunctional, short-sighted and prone to political manipulation. The only way to overcome the dependency on national contributions to the EU – and lessen the exposure to national egotisms that so often stand in the way of doing the right thing for the common good – is to raise more funds from so-called "own resources". To be sure, this is not about increasing the total EU budget: it is only about raising funds in a manner that is commensurate with the challenges ahead, which call for more strategic investment in the wider European interest. A tax on financial transactions and allocating part of the European Emission Trading scheme to EU coffers are both good proposals. And if the Member States spike the proposals for own resources, they forgo their right to complain about the EU budget.

From policy to politics

As is always the case, however, the ultimate test of reform will not be the *policy*, the intellectual arguments, the evidence presented – but the *politics*, the down-and-dirty of interest group wrangling, the Member States' ability and willingness to act beyond their immediate short-term interests.

To be sure, this MFF is about something much larger than the actual amount of money, which (as we all know) is comparatively small. This MFF is about what we as EU want to stand for in the 21st century; it is about demonstrating to our citizens and our global partners that we collectively have the ability to embrace change and embody modernisation – and that we are prepared to walk the talk of the Europe 2020 Strategy.

Europe is at its best when it supports movement and mobility, exchange and collaboration, renewal and entrepreneurship. These are the areas that are in need of financing, and where even modest EU disbursements could make a profound difference. It is high time to put our money where our mouth is.